



Ratlou Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2021

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## General Information

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<b>Legal form of entity</b>	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
<b>Nature of business and principal activities</b>	Ratlou Local municipality's mandate is to engage in local governance activities, which includes: <ul style="list-style-type: none"><li>- planning and promotion of integrated development planning</li><li>- land, economic and environmental development</li><li>- supplying of the rental facilities and administration of rates</li><li>- encourage and facilitate community and community organisations involvement in local governance matters</li></ul>
<b>Legislation governing the Municipality's operations</b>	Local Government: Municipal Finance Management Act (Act no.56 of 2003) Local Government: Municipal Finance Management Act (Act no.56 of 2003) Local Government: Municipal Structures Act (Act 117 of 1998) Constitution of the Republic of south Africa (Act 108 of 1998) Municipal Property Rates Act (act of 6 2004) Division of Revenue Act (Act 1 of 2007)
<b>Mayoral committee</b>	
<b>Executive committee members</b>	S Ntladi (Mayor) A Ramosidi (Acting speaker) K Ntwe (Exco) M Mongala (Exco) B Mosikare (Exco) M Moalusi (Exco) K Badirwang(Exco)
<b>Councillors</b>	E Seane S Ntladi M Phaedi M Phaedi B Mosikare G Gadiutlwe A Ramodisi M Boikanyo F Moalusi O Sefawe T Makutle K Leepo M Dala A Matebele D Seitshiro L Godi O Seabelo K Mokone K Pebe K Mikelane T Mabaso R Mosie W Mongala P Mafethe D Dithobiso

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## General Information

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	F Ntwe G Mokgope RO Molema
Grading of local authority	Grade 1
Capacity of local authority	Low
Municipal demarcation code	NW381
Accounting Officer	Chanda T
Chief Finance Officer (CFO)	C Tjale (Acting Chief Financial Officer)
Accounting Officer	Chanda T
Registered office	Delareyville Road Next to Setlagole Library Setlagole 2772
Postal address	Private Bag X209 Madibogo 2772
Bankers	First National Bank
Auditors	Auditor General of South Africa

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Financial Management Grant
EPWP	Expanded Public Works Program
LG SETA	Local Government Sector Education and Training Authority

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's internal auditors.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on:



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Chanda T  
Accounting officer

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Report of the Accounting Officer

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The accounting officer submits their report for the year ended 30 June 2021.

### 1. Review of activities

#### Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 16 913 273 (30 June 2020: deficit R 2 189 896).

### 2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### 4. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Chanda T	South African

### 6. Corporate governance

#### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

### 7. Auditors

Auditor General of South Africa will continue in office for the next financial period.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	7	394 323	406 265
Receivables from exchange transactions	4&6	8 539 880	7 353 450
Receivables from non-exchange transactions	5&6	20 894 847	15 475 726
VAT receivable	8	10 169 700	8 714 489
Cash and cash equivalents	3	62 146 503	52 930 009
		<b>102 145 253</b>	<b>84 879 939</b>
<b>Non-Current Assets</b>			
Investment property	9	1 200 000	21 600 000
Property, Plant and Equipment	10	363 057 925	342 673 382
Intangible assets	11	333 590	453 382
		<b>364 591 515</b>	<b>364 726 764</b>
<b>Total Assets</b>		<b>466 736 768</b>	<b>449 606 703</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	12	21 503 442	14 714 413
Consumer deposits	13	39 297	37 302
Employee benefit obligation	16	335 559	486 251
Unspent conditional grants and receipts	14	21 943 278	27 242 427
		<b>43 821 576</b>	<b>42 480 393</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	16	5 319 015	4 071 725
Provisions	15	1 781 433	1 300 636
		<b>7 100 448</b>	<b>5 372 361</b>
<b>Total Liabilities</b>		<b>50 922 024</b>	<b>47 852 754</b>
<b>Net Assets</b>		<b>415 814 744</b>	<b>401 753 949</b>
Accumulated surplus		415 814 744	401 753 949

\* See Note 44

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	18	252 118	311 856
Rental of facilities and equipment	19	1 152 093	1 186 551
Interest received (trading)		-	2 388 820
Agency services		923 067	338 629
Other income		45 988	141 719
Interest received (investment)	21	2 053 980	2 245 791
<b>Total revenue from exchange transactions</b>		<b>4 427 246</b>	<b>6 613 366</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	22	25 996 135	28 633 768
<b>Transfer revenue</b>			
Government grants & subsidies	23	180 555 634	133 923 023
Public contributions and donations		-	20 141
Fines, penalties and forfeits		90 700	141 500
<b>Total revenue from non-exchange transactions</b>		<b>206 642 469</b>	<b>162 718 432</b>
<b>Total revenue</b>		<b>211 069 715</b>	<b>169 331 798</b>
<b>Expenditure</b>			
Employee related costs	24	(84 209 166)	(79 006 237)
Remuneration of councillors	25	(11 561 368)	(10 637 169)
Depreciation and amortisation	26	(24 436 339)	(27 534 597)
Finance costs	27	(36 621)	(32 725)
Debt impairment	28	(354 201)	(4 425 566)
Contracted services	29	(6 513 840)	(6 412 479)
Loss on disposal of assets and liabilities		(2 968 116)	(254 802)
Fair value adjustments		(20 400 000)	-
General expenses	30	(43 676 791)	(43 218 119)
<b>Total expenditure</b>		<b>(194 156 442)</b>	<b>(171 521 694)</b>
<b>Surplus (deficit) for the year</b>		<b>16 913 273</b>	<b>(2 189 896)</b>

\* See Note 44



## Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2019</b>	<b>403 943 845</b>	<b>403 943 845</b>
Changes in net assets		
Surplus for the year	(2 189 896)	(2 189 896)
Total changes	(2 189 896)	(2 189 896)
<b>Restated* Balance at 01 July 2020</b>	<b>398 901 471</b>	<b>398 901 471</b>
Changes in net assets		
Surplus for the year	16 913 273	16 913 273
Total changes	16 913 273	16 913 273
<b>Balance at 30 June 2021</b>	<b>415 814 744</b>	<b>415 814 744</b>

\* See Note 44

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from customers		19 236 320	9 907 674
Grants		175 256 485	157 310 445
Other income		136 688	283 219
Interest income		2 053 980	4 634 611
		196 683 473	172 135 949
<b>Payments</b>			
Employee costs		(95 770 534)	(89 643 406)
Suppliers		(43 990 611)	(42 182 380)
Finance costs		(36 621)	(32 725)
		(139 797 766)	(131 858 511)
<b>Net cash flows from operating activities</b>	32	<b>56 885 707</b>	<b>40 277 438</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(47 669 213)	(2 598 460)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>9 216 494</b>	<b>37 678 978</b>
Cash and cash equivalents at the beginning of the year		52 930 009	15 251 031
<b>Cash and cash equivalents at the end of the year</b>	3	<b>62 146 503</b>	<b>52 930 009</b>

\* See Note 44

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges - electricity revenue	224 639	-	224 639	252 118	27 479	1
Rental of facilities and equipment	1 168 726	-	1 168 726	1 152 093	(16 633)	2
Agency services	896 796	-	896 796	923 067	26 271	3
Other income	39 349	-	39 349	45 988	6 639	4
Interest received - investment	1 983 770	-	1 983 770	2 053 980	70 210	5
<b>Total revenue from exchange transactions</b>	<b>4 313 280</b>	<b>-</b>	<b>4 313 280</b>	<b>4 427 246</b>	<b>113 966</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	24 480 253	-	24 480 253	25 996 135	1 515 882	6
<b>Transfer revenue</b>						
Government grants and subsidies	165 537 200	-	165 537 200	180 555 634	15 018 434	7
Fines, penalties and forfeits	53 517	-	53 517	90 700	37 183	8
<b>Total revenue from non-exchange transactions</b>	<b>190 070 970</b>	<b>-</b>	<b>190 070 970</b>	<b>206 642 469</b>	<b>16 571 499</b>	
<b>Total revenue</b>	<b>194 384 250</b>	<b>-</b>	<b>194 384 250</b>	<b>211 069 715</b>	<b>16 685 465</b>	
<b>Expenditure</b>						
Employee related costs	(91 416 943)	-	(91 416 943)	(84 209 166)	7 207 777	9
Remuneration of councillors	(14 235 850)	-	(14 235 850)	(11 561 368)	2 674 482	10
Depreciation and amortisation	(30 500 000)	-	(30 500 000)	(24 436 339)	6 063 661	11
Finance costs	(160 000)	-	(160 000)	(36 621)	123 379	12
Debt Impairment	(4 200 000)	-	(4 200 000)	(354 201)	3 845 799	13
Repairs and maintenance	-	-	-	(1 282 692)	(1 282 692)	14
Contracted services	(19 847 627)	-	(19 847 627)	(6 513 840)	13 333 787	15
General expenses	(44 844 780)	-	(44 844 780)	(42 394 099)	2 450 681	16
<b>Total expenditure</b>	<b>(205 205 200)</b>	<b>-</b>	<b>(205 205 200)</b>	<b>(170 788 326)</b>	<b>34 416 874</b>	
<b>Operating surplus</b>	<b>(10 820 950)</b>	<b>-</b>	<b>(10 820 950)</b>	<b>40 281 389</b>	<b>51 102 339</b>	
Loss on disposal of assets and liabilities	-	-	-	(2 968 116)	(2 968 116)	
Transfers and subsidies - capital	27 762 800	-	27 762 800	-	(27 762 800)	17
Fair value adjustments	-	-	-	(20 400 000)	(20 400 000)	18
	<b>27 762 800</b>	<b>-</b>	<b>27 762 800</b>	<b>(23 368 116)</b>	<b>(51 130 916)</b>	
<b>Surplus before taxation</b>	<b>16 941 850</b>	<b>-</b>	<b>16 941 850</b>	<b>16 913 273</b>	<b>(28 577)</b>	
<b>Surplus for the year</b>	<b>16 941 850</b>	<b>-</b>	<b>16 941 850</b>	<b>16 913 273</b>	<b>(28 577)</b>	

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

#### 1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

##### Allowance for slow moving, damaged and obsolete inventory

An assessment is made of net realisable value at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

##### Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the discount rate assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

#### Value in use of cash generating assets

The municipality reviews and tests the carrying value of cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as exchange rates, inflation and interest rates.

#### Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Goodwill is tested on an annual basis for impairment.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

#### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease depreciation charge where useful lives are more than previously estimated useful lives.

#### Post retirement benefits and other long-term benefits

The present value of the post retirement and long-term benefit obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement and long-term benefit obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement and long-term benefit obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 16.

#### Effective interest rate

The municipality uses the prime interest rate to discount future cash flows.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Allowance for impairment of financial assets

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

#### Derecognition

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property are the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows: [The criteria depends on the extent to which the assets are used for service delivery]

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 10).

### 1.4 Property, Plant and Equipment

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.4 Property, Plant and Equipment (continued)

Property, Plant and Equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, Plant and Equipment are depreciated over their expected useful lives to their estimated residual value. The depreciation charge for each period is recognised in surplus or deficit.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
Bins and containers	Straight line	5 -10 years
Buildings	Straight line	30 years
Community assets	Straight line	30 years
Computer equipment	Straight line	3 - 5 years
Emergency equipment	Straight line	5 - 15 years
Furniture and fittings	Straight line	7 - 10 years
Infrastructure assets	Straight line	3 - 40 years
Landfill site	Straight line	30 years
Motor vehicle	Straight line	3 - 20 years
Office equipment	Straight line	5 - 7 years
Other property plant and equipment	Straight line	5 - 15 years
Refuse removal equipment	Straight line	5 years

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### 1.4 Property, Plant and Equipment (continued)

Assets of the property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore certain items of property, plant and equipment. Such obligations are referred to as 'decommissioning, rehabilitation and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of non-cash-generating assets.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially measured at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.



# Ratlou Local Municipality

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## Accounting Policies

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### 1.6 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets to their residual values. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of items of intangible assets have been assessed as follows:

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Item	Depreciation method	Average useful life
Computer software	Straight line	1 - 10 years

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Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets are included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.7 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.7 Impairment of cash-generating assets (continued)

#### Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

#### Value in use

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Ratlou Local Municipality

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## Accounting Policies

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### 1.7 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# Ratlou Local Municipality

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## Accounting Policies

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### 1.7 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.8 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

# Ratlou Local Municipality

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## Accounting Policies

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### 1.8 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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## Accounting Policies

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### 1.8 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Loans to economic entities	Financial asset measured at amortised cost
Loans to shareholders	Financial asset measured at amortised cost
Inventories	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Employee benefit obligation	Financial liability measured at fair value

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants will consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

# Ratlou Local Municipality

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## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.10 Statutory receivables

#### Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

#### Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.



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### 1.10 Statutory receivables (continued)

#### Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

#### Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

#### Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent;
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation;
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied); and
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

#### Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
  - the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable;
- or

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## Accounting Policies

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### 1.10 Statutory receivables (continued)

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Value Added Tax

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the VAT Act No.89 of 1991.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.13 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

#### Post-employment benefits

##### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

##### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.13 Employee benefits (continued)

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.13 Employee benefits (continued)

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### Other long-term employee benefits

The municipality has an obligation to provide other long-term service allowance benefits to all of the employees rendering 10 years continuous service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method to determine the present value of the obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses, which shall all be recognised immediately;

### 1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

Where the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.7 and 1.8.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. .

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.15 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited / debited against accumulated surplus / deficit. Prior year adjustments, relating to income and expenditure, are credited / debited against accumulated surplus when retrospective adjustments are made.

### 1.16 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest and dividends

Revenue arising from the use by others of municipal assets yielding interest and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.17 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.



# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### Services in-kind

Except for financial guarantee contracts, the municipality recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

#### Concessionary loans received

A concessionary loan is a loan granted to or received by the property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, are exchange transactions and are accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

### 1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.20 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.20 Leases (continued)

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

### 1.21 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase of sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given raise to the transfer occurred.

### 1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.23 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.24 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.26 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.27 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.28 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date:	Expected impact:
GRAP 25 : Employee Benefits	1 April 2021	None at this point
GRAP 104 : Separate Financial Statements	1 April 2021	None at this point

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 510	76
Bank balances	7 119 811	2 948 369
Short-term deposits	55 023 182	49 981 564
	<b>62 146 503</b>	<b>52 930 009</b>

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

First National Bank credit rating for short term deposits as at year end by Moodys was P3: Not under watch.

#### Cash and cash equivalents pledged as collateral

There are no cash and cash equivalent financial assets pledged as collateral.

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
FNB Bank - Main Account - 62023653042	7 119 811	2 948 369	4 761 183	7 119 811	2 948 369	3 008 871
FNB Bank - Money Market Investment Account - 62032709993	-	5 483	5 272	-	5 483	5 272
FNB Bank - Infrastructure Grant Account - 62159138299	395 432	387 970	371 538	395 432	387 970	371 538
FNB Bank - Money Market Investments Call Call Account - 62600527975	53 477 393	48 466 304	10 854 532	53 477 393	48 466 304	10 854 532
FNB Bank - DBSA Loan Account - 62600530259	1 150 357	1 121 807	1 067 859	1 150 357	1 121 807	1 067 859
<b>Total</b>	<b>62 142 993</b>	<b>52 929 933</b>	<b>17 060 384</b>	<b>62 142 993</b>	<b>52 929 933</b>	<b>15 308 072</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>4. Receivables from exchange transactions</b>		
Staff debtors	286 316	172 043
Consumer receivables - rental	5 191 660	6 290 541
Consumer receivables - sundry	2 379 493	498 390
Consumer receivables - electricity	682 411	392 476
	<b>8 539 880</b>	<b>7 353 450</b>
<b>Trade and other receivables pledged as security</b>		
None of the trade and other receivables were pledged as security		
<b>Trade and other receivables past due but not impaired</b>		
<b>Reconciliation of provision for impairment of trade and other receivables</b>		
Opening balance	(2 356 612)	(2 562 393)
Other	-	205 781
	<b>(2 356 612)</b>	<b>(2 356 612)</b>
<b>5. Receivables from non-exchange transactions</b>		
Consumer receivables - rates	20 859 804	15 441 042
Consumer receivables - traffic fines	35 043	34 684
	<b>20 894 847</b>	<b>15 475 726</b>
<b>Receivables from non-exchange transactions pledged as security</b>		
None of the receivables from non-exchange were pledged as security		
<b>6. Consumer debtors</b>		
<b>Gross balances</b>		
Consumer receivables - rates	33 783 089	28 364 327
Consumer receivables - rentals	8 845 928	9 944 809
Consumer receivables - sundry	2 379 493	498 390
Consumer receivables - staff debtors	1 116 040	826 105
Consumer receivables - traffic fines	1 184 709	1 098 879
	<b>47 309 259</b>	<b>40 732 510</b>
<b>Less: Allowance for impairment</b>		
Consumer receivables - rates	(12 923 285)	(12 923 285)
Consumer receivables - rentals	(3 654 268)	(3 654 268)
Consumer receivables - staff debtors	(433 629)	(433 629)
Consumer receivables - traffic fines	(1 149 666)	(1 064 195)
	<b>(18 160 848)</b>	<b>(18 075 377)</b>
<b>Net balance</b>		
Consumer receivables - rates	20 859 804	15 441 042
Consumer receivables - rentals	5 191 660	6 290 541
Consumer receivables - sundry	2 379 493	498 390
Consumer receivables - staff debtors	682 411	392 476
Consumer receivables - traffic fines	35 043	34 684
	<b>29 148 411</b>	<b>22 657 133</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>7. Inventories</b>		
Consumable stores	156 367	161 435
Maintenance materials	237 956	244 830
	<b>394 323</b>	<b>406 265</b>

Carrying value of inventories carried at fair value less costs to sell 394 323 406 265

Inventories recognised as an expense during the year 336 335 113 895

### Inventory pledged as security

No inventory was pledged as security.

### 8. VAT receivable

VAT	10 169 700	8 714 489
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### 9. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Setlagole Business Complex	1 200 000	-	1 200 000	21 600 000	-	21 600 000

#### Reconciliation of investment property -30 June 2021

	Opening balance	Fair value adjustments	Total
Setlagole Business Complex	21 600 000	(20 400 000)	1 200 000

#### Reconciliation of investment property - 30 June 2020

	Opening balance	Fair value adjustments	Total
Setlagole Business Complex	21 400 000	200 000	21 600 000

#### Pledged as security

No Investment property were pledged as security.

#### Details of valuation

The effective date of the revaluations was Wednesday, 30 June 2021. Revaluations were performed by an independent valuer, Stanton K Alberts [registration number [5720/2], of Realworx and valuation services. Stanton K Albert is not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use and the South African property valuers association's standard method of valuation.

These assumptions are based on current market conditions.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>9. Investment property (continued)</b>		
<b>Amounts recognised in surplus or deficit</b>		
Fair value Investment property	(20 400 000)	200 000
<b>From investment property that generated rental revenue</b>		
Rental of facilities and equipment	1 152 093	1 186 551



# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021			2020		
<b>10. Property, Plant and Equipment</b>						
	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Bins and containers	25 820	(10 881)	14 939	65 072	(24 014)	41 058
Buildings	71 634 518	(27 810 792)	43 823 726	71 998 016	(24 551 983)	47 446 033
Community assets	146 652 555	(36 802 905)	109 849 650	145 640 229	(33 226 833)	112 413 396
Computer equipment	6 244 701	(242 718)	6 001 983	9 891 561	(3 428 302)	6 463 259
Emergency equipment	32 560	(23 954)	8 606	59 844	(39 288)	20 556
Furniture and fixtures	3 951 924	(2 258 488)	1 693 436	4 282 163	(2 226 945)	2 055 218
Construction Work-In-Progress	28 042 973	-	28 042 973	4 541 613	-	4 541 613
Infrastructure	204 994 180	(46 377 127)	158 617 053	189 430 922	(31 329 215)	158 101 707
Motor vehicles	22 542 205	(8 538 435)	14 003 770	15 318 782	(5 093 873)	10 224 909
Office equipment	621 919	(267 502)	354 417	391 490	(310 721)	80 769
Other property, plant and equipment	1 188 919	(544 624)	644 295	2 179 557	(897 962)	1 281 595
Waste removal equipment	11 952	(9 679)	2 273	-	3 269	3 269
Wastewater network	804	-	804	-	-	-
<b>Total</b>	<b>485 945 030</b>	<b>(122 887 105)</b>	<b>363 057 925</b>	<b>443 799 249</b>	<b>(101 125 867)</b>	<b>342 673 382</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, Plant and Equipment (continued)

#### Reconciliation of property, plant and equipment - 30 June 2021

	Opening balance	Correction of FAR Error and other	Additions	Write-downs	Assets not verified	Transfers	Other changes, movements	Depreciation	Depreciation Reclassification	Total
Bins and containers	41 058	-	-	(24 362)	(35)	-	-	(1 722)	-	14 939
Buildings	47 446 033	-	-	-	-	(245 615)	12 855	(3 733 476)	343 929	43 823 726
Community	112 413 396	777 000	-	-	-	245 615	(12 855)	(3 229 577)	(343 929)	109 849 650
Emergency equipment	20 556	-	-	(9 715)	(62)	-	-	(2 173)	-	8 606
Furniture and fixtures	2 055 218	-	185 709	(288 203)	(207)	-	-	(259 081)	-	1 693 436
Construction Work-In-Progress	4 541 613	-	39 066 203	-	-	(15 564 843)	-	-	-	28 042 973
Computer equipment	6 463 259	-	2 851 293	(2 821 714)	(248)	-	-	(490 607)	-	6 001 983
Infrastructure	158 101 707	(29 408)	-	-	-	15 564 843	-	(15 020 089)	-	158 617 053
Motor vehicles	10 224 909	(27)	5 239 008	-	-	-	-	(1 460 120)	-	14 003 770
Office equipment	80 769	-	327 000	(43 635)	(26)	-	-	(9 691)	-	354 417
Other property, plant and equipment	1 281 595	-	-	(557 812)	(226)	-	-	(79 262)	-	644 295
Waste removal equipment	3 269	-	-	-	-	-	-	(996)	-	2 273
Assets not verified	-	-	-	-	804	-	-	-	-	804
	<b>342 673 382</b>	<b>747 565</b>	<b>47 669 213</b>	<b>(3 745 441)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(24 286 794)</b>	<b>-</b>	<b>363 057 925</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, Plant and Equipment (continued)

#### Reconciliation of property, plant and equipment - 30 June 2020

	Opening balance	Additions	WIP additions	Disposals	Depreciation	Depreciation reclassification	Depreciation error corrections	Total
Bins and containers	45 418	-	-	-	(4 360)	-	-	41 058
Buildings	51 757 149	-	-	-	(4 707 498)	396 382	-	47 446 033
Community	116 157 439	-	687 687	-	(3 520 907)	(910 823)	-	112 413 396
Emergency equipment	24 676	-	-	-	(4 120)	-	-	20 556
Furniture and fixtures	2 341 788	-	-	-	(286 570)	-	-	2 055 218
Construction Work-In-Progress	-	-	4 541 613	-	-	-	-	4 541 613
Computer equipment	7 339 909	18 359	-	(4 705)	(890 304)	-	-	6 463 259
Infrastructure	172 630 739	1 304 020	-	-	(17 357 919)	1 526 096	(1 229)	158 101 707
Motor vehicles	10 967 194	1 246 340	-	(525 781)	(1 462 844)	-	-	10 224 909
Office equipment	85 198	29 741	-	(1 055)	(33 115)	-	-	80 769
Other property, plant and equipment	1 459 652	-	-	(28 765)	(149 292)	-	-	1 281 595
Waste removal equipment	4 268	-	-	-	(999)	-	-	3 269
	<b>362 813 430</b>	<b>2 598 460</b>	<b>5 229 300</b>	<b>(560 306)</b>	<b>(28 417 928)</b>	<b>1 011 655</b>	<b>(1 229)</b>	<b>342 673 382</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>10. Property, Plant and Equipment (continued)</b>		
<b>PPE Disclosure Note - Unverified Assets</b>		
<b>The unverified assets are categorised and valued as follows on the Movable FAR</b>		
<b>2020/21:</b>		
Bins and Containers	24 362	-
Computer Assets	4 379 526	-
Emergency Assets	9 715	-
Furniture and Fixtures	288 203	-
Office Equipment	43 635	-
Other PPE	557 812	-
	<b>5 303 253</b>	<b>-</b>

During the 2020/21 financial year, the asset management team of Ratlou Local Municipality performed a full verification of the movable assets of the municipality.

During the asset verification, it was concluded that 904 movable assets were not verified.

In order to fairly present the financial position of the Municipal Property, Plant and Equipment, the unverified assets have been temporarily written down to R1. The reason that they were not written-off, is because the verification was only recently completed. The municipality requires time to investigate this matter, before fully writing the assets off.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 11. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 270 873	(937 283)	333 590	1 270 873	(817 491)	453 382

#### Reconciliation of intangible assets - 30 June 2021

	Opening balance	Amortisation	Total
Computer software	453 382	(119 792)	333 590

#### Reconciliation of intangible assets -30 June 2020

	Opening balance	Amortisation	Total
Computer software	580 469	(127 087)	453 382

#### Pledged as security

No Intangible assets were pledged as security.

## Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>12. Payables from exchange transactions</b>		
Trade payables	1 184 640	(2 481 221)
Accrued bonus	2 806 877	2 044 905
Accrued leave	7 312 113	5 991 691
Retention payables	10 199 812	9 159 038
	<b>21 503 442</b>	<b>14 714 413</b>
<b>13. Consumer deposits</b>		
Rental	39 297	37 302
<b>14. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Free basic water grant	2 717 308	2 717 308
Kraaipan grant	387 697	387 697
Library grant	1 430 277	1 430 277
Municipal Infrastructure Grant	16 436	22 707 145
Disaster management Grant	17 013 523	-
EPWP Grant	348 841	-
LG SETA Grant	29 196	-
	<b>21 943 278</b>	<b>27 242 427</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	27 242 427	3 855 005
Additions during the year	175 256 801	157 319 445
Income recognition during the year	(180 555 950)	(133 932 023)
	<b>21 943 278</b>	<b>27 242 427</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 15. Provisions

#### Reconciliation of provisions - 30 June 2021

	Opening Balance	Additions	Total
Environmental rehabilitation	1 300 636	480 797	1 781 433

#### Reconciliation of provisions - 30 June 2020

	Opening Balance	Additions	Total
Environmental rehabilitation	1 218 213	82 423	1 300 636

#### Environmental rehabilitation provision

The provision for environmental rehabilitation relates to the municipality's estimated liability arising from the operation of two dumping sites, one in Setlagole and the other in Makgobistad.

Provision has been made for the net present value of the cost by One Pangaea Expertise and Solutions Pty Ltd, registered actuaries and waste management consultants.

The environmental rehabilitation provision includes an interest cost of R 56 968(2019: R39 349)

#### Summary of Assumptions

The unit cost of the various cost elements relating to rehabilitation and closure were adjusted using the Civil Engineering Indices (drawn from the South African Federation of Civil Engineering Contractors website [www.safcec.org.za](http://www.safcec.org.za)) and the Contract Price Adjustment Factors (drawn from the [www.dialytenders.co.za](http://www.dialytenders.co.za)) websites, using the coefficients for Earthworks as provided in the General Conditions of Contract. Online research of services within the locality of Ratlou was used to determine unit rates for the cost derived for the closure and rehabilitation items. The pricing guide is the industry standard in referencing material for any stakeholder involved in the South African construction sector

Accounting Standard GRAP19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site

The methodology for setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2020 the duration of liabilities was 8.40 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2021 is 9.63% per annum, and the yield on inflation-linked bonds of a similar term was about 3.37% per annum. This implies an underlying expectation of inflation of 5.57% per annum  $([1 + 9.63\% - 0.5\%] / [1 + 3.37\%] - 1)$ .

We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 6.57% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 2.87% per annum  $([1 + 9.63\%] / [1 + 6.57\%] - 1)$ .

The Zero-Coupon Yield Curves were obtained from the Bond Exchange of South Africa after the market closed on 30 June 2020. The key assumptions are summarised below:

## Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand 2021 2020

#### 16. Employee benefit obligations

##### Long Service Bonus Awards Liability

Ratlou Local Municipality, ('Ratlou'), has requested a specialist in GRAP 25 reporting, One Pangaea Expertise and Solutions ('OPES'), to compile an actuarial valuation report on its present value of long service bonus awards liability at 30 June 2021. The purpose of the report will be to disclose results in the Statement of Generally Recognised Accounting Practice 25 (GRAP 25) format as informed by the Accounting Standards Board (ASB). The results/disclosures illustrated in this report are GRAP 25 compliant. A previous actuarial valuation was compiled as at 30 June 2020.

##### Eligible Employees

Number of employees	218	217
Average annual salary (R)	288,0421	277,027
Average age (years)	41.95	40.89
Average past service (years)	8.17	7.21

The amounts recognised in the statement of financial position are as follows:

Opening accrued liability	4 557 976	4 123 004
Current service cost	577 066	577 975
Current interest cost	439 252	373 193
Expected benefit payments	(486 251)	(155 845)
Actuarial (gain)/loss over financial year	566 531	(360 351)
	<b>5 654 574</b>	<b>4 557 976</b>
Non-current liabilities	(5 319 015)	(4 071 725)
Current liabilities	(335 559)	(486 251)
	<b>(5 654 574)</b>	<b>(4 557 976)</b>

The South African Institute of Chartered Accountants (SAICA) revised the Statement of Generally Accepted Accounting Practice, then known as AC116, in 2001

GRAP25 states that the current service cost should be recognised as a periodic expense in operating profit and should be matched to the benefit received during the working life of the employee

We have applied the Projected Unit Credit Method to determine the liabilities. The projected liability is based on actuarial assumptions about the future. These assumptions are set to be realistic and individually justifiable. However, the actual experience of the beneficiaries of Ratlou will vary from these assumptions. These variations emerge at each valuation as actuarial gains or losses.

The approach taken in this valuation has been made with reference to the guidelines issued by the Actuarial Society of South Africa (ASSA), in particular, the Advisory Practice Note 207 as issued by ASSA, and is consistent with the requirements of GRAP25.

##### Net expense recognised in the statement of financial performance

Current service cost	577 066	577 975
Current interest cost	439 252	373 193
Actuarial (gain)/loss over financial year	566 531	(360 351)
Actual benefit payments	(486 251)	(155 845)
	<b>1 096 598</b>	<b>434 972</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 16. Employee benefit obligations (continued)

#### Key assumptions used

The obligation arise from conditions of service which provide that employees that render 10 continuous years, and thereafter each 5 years, of service to the municipality are awarded the financial benefit. The obligation is based on rates approved by the municipality.

The Long service award (employee benefit obligation) disclosed includes an interest cost of R 439,252 (2020: R373,193), current service cost of R 577,066 (2020: R 577,975) and actuarial gains and [-losses] of R566,531(2020:-360,351).  
Summary of Assumptions

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases.

The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Discount rates used	9.63%	10.18%
Consumer price inflation (C)	5.57 %	4.97 %
Net discount rate $((1+D)/(1+H)-1)$	2.87 %	3.97 %
Salary increase rate	6.57 %	5.97 %

A long service award is payable after 10 years of continuous service and every 5 years thereafter to employees. The most recent actuarial valuation of the present value of the defined benefit provision was carried out at 30 June 2019 by TJ Mureriwa and TG Mhonde of One Pangea Financial. The present value of the defined benefit obligation and the related current service cost and past service cost were measured using the Projected Unit Credit Method. At year-end 190 employees were eligible for long service awards.

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology for setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2020 the duration of liabilities was 8.40 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2021 is 9.63% per annum, and the yield on inflation-linked bonds of a similar term was about 3.37% per annum. This implies an underlying expectation of inflation of 5.57% per annum  $([1 + 9.63\% - 0.5\%] / [1 + 3.37\%] - 1)$ .

We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 6.57% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 2.87% per annum  $([1 + 9.63\%] / [1 + 6.57\%] - 1)$ .

### 17. Financial instruments disclosure

#### Categories of financial instruments

30 June 2021

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	8 539 880	8 539 880
Trade and other receivables from non-exchange transactions	20 894 847	20 894 847



# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>17. Financial instruments disclosure (continued)</b>		
Cash and cash equivalents	62 146 503	62 146 503
	<b>91 581 230</b>	<b>91 581 230</b>
<b>Financial liabilities</b>		
	At amortised cost	Total
Trade and other payables from exchange transactions	21 503 442	21 503 442
<b>30 June 2020</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Trade and other receivables from exchange transactions	7 353 450	7 353 450
Trade receivables from non-exchange transactions	15 475 726	15 475 726
Cash and cash equivalents	52 930 009	52 930 009
	<b>75 759 185</b>	<b>75 759 185</b>
<b>Financial liabilities</b>		
	At amortised cost	Total
Trade and other payables from exchange transactions	14 714 413	14 714 413
<b>18. Service charges</b>		
Service charges	252 118	311 856
<b>19. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	1 149 063	1 171 686
<b>Facilities and equipment</b>		
Rental of facilities	3 030	14 865
	<b>1 152 093</b>	<b>1 186 551</b>
<b>20. Other revenue</b>		
Other income	45 988	141 719
<b>The amount included in other revenue arising from exchanges of goods or services are as follows:</b>		
Rezoning and telecentre	2 828	3 215
Tender fees	38 261	11 304
Tuition fees	-	127 200
Library income	2 573	-
Building plans	1 458	-
Application fees for land usage	868	-
	<b>45 988</b>	<b>141 719</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>21. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	6 711	62 756
Interest from investments	2 047 269	2 183 035
	<b>2 053 980</b>	<b>2 245 791</b>
<b>22. Property rates</b>		
<b>Rates received</b>		
Residential on farms	2 078 762	2 033 600
Commercial	1 276 645	1 221 744
State	20 348 559	23 199 239
Farms	4 162 059	3 763 247
Less: Income forgone	(1 869 890)	(1 584 062)
	<b>25 996 135</b>	<b>28 633 768</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>23. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	133 828 000	122 894 000
Expanded public works programme grant	1 468 160	1 571 000
Finance management grant	1 900 000	1 940 000
Disaster management grant	8 425 015	268 000
Library grant	-	421 400
LG SETA grant	85 750	135 767
	<b>145 706 925</b>	<b>127 230 167</b>
<b>Capital grants</b>		
Municipal infrastructure grant	34 848 709	6 692 856
	<b>180 555 634</b>	<b>133 923 023</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	46 727 950	11 038 023
Unconditional grants received	133 828 000	122 894 000
	<b>180 555 950</b>	<b>133 932 023</b>
<b>Municipal infrastructure grant</b>		
Balance unspent at beginning of year	22 707 145	-
Current-year receipts	20 165 000	29 400 000
Conditions met - transferred to revenue	(34 848 564)	(6 692 855)
Roll over not approved	(8 007 145)	-
	<b>16 436</b>	<b>22 707 145</b>
Conditions still to be met - remain liabilities (see note 14).		
<b>Kraaipan grant</b>		
Balance unspent at beginning of year	387 697	387 697
Conditions still to be met - remain liabilities (see note 14).		
The grant is provided to provide services and goods on behalf on the Grantor to the community, as such no expenditure or revenue is recognised by the municipality as it is only intermediary.		
<b>Free basic water</b>		
Balance unspent at beginning of year	2 717 308	2 717 308
Conditions still to be met - remain liabilities (see note 14).		
The purpose of the grant is to provide the water to the community as an agent of the District, as such no expenditure or revenue is recognised on the grant.		
<b>Financial management grant</b>		
Current-year receipts	1 900 000	1 940 000
Conditions met - transferred to revenue	(1 900 008)	(1 940 000)
	<b>(8)</b>	<b>-</b>

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>23. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 14).		
The purpose of the grant is to promote and support reforms in financial management by building capacity to implement the MFMA.		
<b>Expanded public works programme</b>		
Current-year receipts	1 817 000	1 571 000
Conditions met - transferred to revenue	(1 468 160)	(1 571 000)
	<b>348 840</b>	-

Conditions still to be met - remain liabilities (see note 14).

Appointment of workers on the Expanded Public Works Programme.

### Community library grant (LG SETA)

Current-year receipts	114 946	557 167
Conditions met - transferred to revenue	(85 750)	(557 167)
	<b>29 196</b>	-

Conditions still to be met - remain liabilities (see note 14).

The municipality received funds from LG SETA for excellent performance by the human resources division. The funds must be utilised towards training.

### Disaster management grant

Current-year receipts	25 439 000	268 000
Conditions met - transferred to revenue	(8 425 477)	(268 000)
	<b>17 013 523</b>	-

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

### Library grant

Balance unspent at beginning of year	1 430 277	750 000
Current-year receipts	-	1 967 297
Conditions met - transferred to revenue	-	(1 287 020)
	<b>1 430 277</b>	<b>1 430 277</b>

Conditions still to be met - remain liabilities (see note 14).

The purpose of the grant is to support the municipality with administration of libraries.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>24. Employee related costs</b>		
Acting allowances	676 813	812 734
Bargaining council contributions	26 557	25 555
Basic	58 859 834	54 773 623
Bonus	5 216 923	4 072 174
Housing benefits and allowances	1 936 679	1 753 811
Leave pay provision charge	1 349 129	2 657 978
Long-service awards	1 674 904	616 794
Medical aid - company contributions	6 248 307	5 863 136
Remote allowance	126 428	118 569
Overtime payments	443 822	776 456
Pension fund contributions	6 565 017	6 237 938
SDL	569 753	614 227
Travel, motor car, accommodation, subsistence and other allowances	100 000	275 000
UIF	415 000	408 242
	<b>84 209 166</b>	<b>79 006 237</b>

### Remuneration of the Municipal Manager - ( Ms Tebogo Chanda)

Annual Remuneration	990 773	884 551
Contributions to UIF, Medical and Pension Funds	1 813	1 785
Remote allowance	39 708	41 686
	<b>1 032 294</b>	<b>928 022</b>

The municipal manager was appointed in October 2018.

### Remuneration of the Chief Financial Officer (Status: CFO - Ms Moitse Ledingoane Terminated on 31 August 2020 )

Annual Remuneration	-	182 246
Remote allowance	-	18 708
	-	<b>200 954</b>

### Remuneration of the Acting Manager Technical Services (Status: Acting Senior Manager- Mr Mooketsi Shomolekae)

Annual Remuneration	871 704	522 970
Remote Allowance	15 769	34 732
	<b>887 473</b>	<b>557 702</b>

### Remuneration of the Acting Corporate Service Senior Manager (Status: Acting Senior Manager - MR Lesley Muji)

Annual Remuneration	813 467	83 971
Remote Allowance	6 916	10 419
	<b>820 383</b>	<b>94 390</b>

### Remuneration of the Acting Community Service Senior Manager (Status: Acting Senior Manager - Mr Petrus Magano)

Annual Remuneration	776 233	80 971
Remote Allowance	6 916	13 024
	<b>783 149</b>	<b>93 995</b>

### Remuneration of the Acting Chief Financial Officer (Status: Acting CFO - Mr Collen Tjale "Appointed on 1 September 2020 up to date" )

# Ratlou Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>24. Employee related costs (continued)</b>		
Annual Remuneration	786 294	-
Remote Allowance	10 041	-
	<b>796 335</b>	-
<b>Remuneration of Acting Municipal Manager: Gaoretelelwe Aubrey Ntshakang</b>		
Annual Remuneration	790 182	-
Remote Allowance	5 019	-
	<b>795 201</b>	-
<b>Remuneration of Acting Technical Services Manager: Sekhoane Benjamin Sehole</b>		
Annual Remuneration	325 077	-
Remote Allowance	12 075	-
	<b>337 152</b>	-
<b>Remuneration of Acting Corporate and Human Resources ( Corporate Services): Mothakgotla Hearnes Lekalake</b>		
Annual Remuneration	841 449	-
Remote Allowance	8 854	-
	<b>850 303</b>	<b>529 574</b>
<b>25. Remuneration of councillors</b>		
Councillors	6 966 025	7 033 918
Executive Committee Members	3 138 025	2 012 002
Speaker	605 185	712 877
Mayor	852 133	878 372
	<b>11 561 368</b>	<b>10 637 169</b>
<b>Remuneration of the Mayor</b>		
The Mayor, Speaker and full-time councilors are provided with office space.		
The Mayor and Speaker each have the use of council owned vehicles for official duties.		
The Mayor and Speaker have the support of personal assistants.		
The remuneration of the political office bearers and councilors are above the upper limit as determined by the framework.		
<b>26. Depreciation and amortisation</b>		
Property, Plant and Equipment	24 436 339	27 534 597
<b>27. Finance costs</b>		
Bank	36 621	32 725
<b>28. Debt impairment</b>		
Contributions to debt impairment provision	354 201	4 425 566

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>29. Contracted services</b>		
<b>Presented previously</b>		
Fleet Services	6 513 840	6 412 479
<b>30. General expenses</b>		
Accommodation and meals	249 917	2 296 396
Advertising	340 103	559 017
Auditors remuneration	3 381 492	2 956 621
Bank charges	93 022	177 962
Billing charges	-	331 539
Bursary	-	50 739
Catering	145 557	363 878
Cleaning	351 336	112 464
Community development and training	-	7 800
Conferences and seminars	-	36 152
Consulting and professional fees	11 968 664	7 882 753
Donations	-	604 712
Electricity	9 585 281	8 037 429
Fleet	44 011	153 770
Fuel and oil	918 585	2 096 651
IDP	181 720	168
IT expenses	3 086 628	473 281
Insurance	1 380 324	1 848 614
Landfill site expense	480 797	82 423
Membership fees	640 050	783 000
Motor vehicle expenses	204 291	143 199
Other expenses	1 035 525	7 942
PMU costs	-	17 635
Pest control	316 216	226 670
Printing and stationery	565 890	1 934 987
Public awareness	-	179 775
Repairs and maintenance	1 282 692	3 451 227
Staff welfare	5 009	83 937
Stipends and internships	1 438 750	3 643 619
Telecentre support	-	168 000
Telephone and fax	4 154 305	3 920 233
Training	172 954	540 873
Transport and freight	1 351 884	29 201
Uniforms	301 788	15 452
	<b>43 676 791</b>	<b>43 218 119</b>
<b>31. Auditors' remuneration</b>		
Fees	3 381 492	2 956 621

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>32. Cash generated from operations</b>		
Surplus (deficit)	16 913 273	(2 189 896)
<b>Adjustments for:</b>		
Depreciation and amortisation	24 436 339	27 534 597
(Gain)/ loss on sale of assets and liabilities	2 968 116	254 802
Fair value adjustments	20 400 000	-
Debt impairment	354 201	4 425 566
Movements in operating lease assets and accruals	-	(3 594)
Movements in retirement benefit assets and liabilities	1 096 598	2 263 949
Movements in provisions	480 797	82 423
Other non cash items	(3 206 672)	5 992 392
Finance cost	36 621	32 725
Donation received	-	20 141
<b>Changes in working capital:</b>		
Inventories	11 942	30 055
Receivables from exchange transactions	(1 186 430)	(3 081 285)
Receivables from non-exchange transactions	(5 419 121)	(911 541)
Payables from exchange transactions	6 789 029	(18 273 751)
VAT	(1 455 211)	733 157
Unspent conditional grants and receipts	(5 299 149)	23 387 422
Consumer deposits	1 995	13 001
Interest paid	(36 621)	(32 725)
	<b>56 885 707</b>	<b>40 277 438</b>

### 33. Commitments

#### Authorised capital expenditure

<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	64 743 339	59 168 153
<b>Total capital commitments</b>		
Already contracted for but not provided for	64 743 339	59 168 153

This committed expenditure relates to plant and equipment and will be financed by available bank balances, retained surpluses, government grant funds, existing cash resources, funds internally generated, etc.

#### Capital Commitments

Construction of Garelang Community Hall  
 Construction of Kraaipan Internal Access Road Phase 01  
 Construction of Link Road to Jan Masibi, Tribal Office and Methusele Phase 01  
 Construction of Roads and Storm Water in Setlhathwe and Ramabesa Phase 01  
 Design and Construction as a Turnkey Solution for the Upgrading of a 2 km internal roads and storm water to surface standards at Mabule.  
 Drilling and Equipping of Borehole  
 Fencing & VIP Toilets of cemeteries at Madibogo-pan, Letsapa and Tlhaping villages  
 Fencing of cemeteries at Logageng, Setlagole, Lohatheng villages  
 Design and Installation as Turnkey solution for 10 LED High Mast Lights in various villages in Ratlou LM  
 Supply and Delivery of Computer equipments and Printers  
 Supply and delivery of (1) new powerstar VX262806X4 Tipeer truck  
 Supply and delivery of 2 new caterpillar 140GC motor graders  
 Supply and delivery of TLB  
 Supply and Delivery of one 10 000 Litres Honey Sucking Truck  
 Design and Construction of Link Road to N18 in Lokaleng Section - Setlagole Village  
 Contractor for the upgrading of link road from madibogo-pan to Tlhaping  
 Appointment for the Contractor for the completion of works at Morokwa Community Hall



# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>34. Contingencies</b>		
<b>Current year</b>		
<b>Service providers cases</b>		
Claim that the Municipality confiscated a Bell Backhoe Loader. -KEBOTHALE TRADING // RATLOU LOCAL MUNICIPALITY Case no: MHK: 1538/2014		
Default judgment was challenged successfully by municipality, summons thereafter was received for outstanding payments for services rendered.-T-SQUARE ENGINEERS // RATLOU LOCAL MUNICIPALITY Case no: 04/2017		
Claims that the Municipality failed to pay the outstanding amount for the service rendered by Sharon's maintenance for the water reservoir in Logageng village-SHARON'S MAINTENANCE AND ELECTRICATION// RATLOU LOCAL MUNICIPALITY Case no: 807/18		
A service provider sued the Municipality for unpaid invoices and loss of income due to breach of contract.-BOKONE BOPHIRIMA PROPERTY VALUERS(PTY) LTD // RATLOU LOCAL MUNICIPALITY Case no: 2167/2018		
claim for unpaid invoices for services rendered-KD Civils// RATLOU LOCAL MUNICIPALITY Case no: 996/2020		
<b>Others</b>		
Sejake claims unpaid salaries and other employment benefits on basis of his appointment as Senior Manager Planning and Development-SEBATANA CASSIUS SEJAKE // RATLOU LOCAL MUNICIPALITY Case no: UM255/2021		
<b>Prior Year</b>		
<b>Service providers cases</b>		
Claim that the Municipality confiscated a Bell Backhoe Loader resulting in loss of income-Kebothale Trading // Ratlou Local Municipality case no: MHK: 1538/14		
Claims that the Municipality failed to pay the outstanding amount for the service rendered by Sharon's maintenance for the water reservoir in Logageng village-T-Square Engineering // Ratlou Local Municipality case no: 04/2017		
Claims that the Municipality failed to pay the outstanding amount for the service rendered by Sharon's maintenance for the water reservoir in Logageng village-Sharon's Maintenance and Electrification // Ratlou Local Municipality case no: 807/18		
A service provider sued the Municipality for unpaid invoices and loss of income due to breach of contract.-Bokone Bophirima Property Valuers (PTY) LTD // Ratlou Local Municipality case no: 2167/2018		
claim for unpaid invoices for services rendered-KD Civils // Ratlou Local Municipality case no: 996/2020		
<b>Others</b>		
Claim related to attempted of Municipal assets per case of writ of execution in favour of Mr. France Pagel.-Sheriffs // Ratlou Local Municipality case no: 05/2019		
The applicants are challenging the termination of their employment contract and the municipal policy in relation to retirement age of 60 years-Imatu Paul Phutieagae & Another // Ratlou Local Municipality case no: 5482/2017		
<b>Contingent assets</b>		
Arbitration hearing challenging the termination of salary upgrades and promotions		
<b>Cases</b>		
Service providers cases	6 403 758	6 403 757
Others	969 828	50 000

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>34. Contingencies (continued)</b>	<b>7 373 586</b>	<b>6 453 757</b>
<b>35. Related parties</b>		
Relationships		
Close family member of key management		Declarations of interest were circulated and CIPC search was conducted
<b>Related party balances</b>		
<b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b>		
Masego Arona Projects	-	22 150
Rayapele Trading and Projects	21 000	29 500
All related party transactions occurred at arms length		
<b>Purchases from (sales to) related parties</b>		
Masego Arona Projects	-	22 150
Rayapele Trading and Projects	21 000	29 500
<b>S.139(1): Provincial intervention in local government</b>		
Eskom	3 446 806	9 689 570
Auditor General	3 035 808	3 334 139

### Remuneration of councillors

#### Councillors/Mayoral committee members

Refer to note 25 "Remuneration of councillors"

#### Executive management

\*Refer to note 24 "Employee related costs"

### 36. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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### 36. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	12 294 328	-	-	-

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	30 June 2021	30 June 2020
First National Bank	62 146 503	52 930 009
Receivables from exchange transactions	8 539 880	7 353 450
Receivables form non exchange transactions	20 894 847	15 475 726

#### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### 37. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 415 814 744 and that the municipality's total assets exceed its liabilities by R 415 814 744.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 38. Events after the reporting date

Covid 19 has impacted negatively on the municipalities. Affecting revenue and expenses strings.

As at 30 June 2020, and post the statement of financial position date, the National Disaster Act remains in force, resulting in national lockdown of movement of people and restrictions placed on trading by businesses.

The governments risk adjusted strategy to COVID-19 commenced at level 5 in March 2020, which had an impact on the last quarter of operations for the financial year.

Post statement of financial position date, the lockdown level has been adjusted and stands at level 1. This has seen an opening of the economy and a significant move towards normality.

The negative impact on trading operations is expected to continue albeit to a much lesser extent. It remains uncertain as to when the state of National Disaster will be completely lifted, amongst speculation of a 'second wave' of the COVID-19 pandemic

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>39. Fruitless and wasteful expenditure</b>		
Opening balance	897 156	874 440
Interest charged	36 922	22 716
	<b>934 078</b>	<b>897 156</b>
<b>Details of Fruitless and Wasteful Expenditure- current year</b>		
Interest charged	36 922	22 716
<b>40. Irregular expenditure</b>		
Opening balance	165 294 289	145 898 635
Prior Year correction	-	15 942 898
Irregular expenditure incurred during the year	54 552 071	3 452 755
	<b>219 846 360</b>	<b>165 294 288</b>
<b>Irregular expenditure incurred during the year</b>		
Contravention of MFMA Section 116(3)	857 137	-
Did not follow competitive bidding process	3 085 500	-
Did not follow MSCMR 12(1)(d )	39 306 228	3 191 755
Payment exceeding contract value	11 303 206	261 000
	<b>54 552 071</b>	<b>3 452 755</b>
<b>41. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	687 280	783 000
Amount paid - current year	(687 280)	(783 000)
	-	-
<b>Skills Development Levy</b>		
Current year subscription / fee	654 393	667 399
Amount paid - current year	(654 393)	(667 399)
	-	-
<b>Audit fees</b>		
Opening balance	2 956 621	1 983 064
Current year subscription / fee	3 381 493	2 956 621
Amount paid - current year	(6 241 196)	(4 824 640)
	<b>96 918</b>	<b>115 045</b>
<b>PAYE and UIF</b>		
Current year subscription / fee	14 754 005	13 506 083
Amount paid - current year	(14 754 005)	(13 506 083)
	-	-

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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Figures in Rand	2021	2020
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### 41. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Pension and Medical Aid Deductions

Current year subscription / fee	13 320 725	12 486 635
Amount paid - current year	(13 320 725)	(12 486 635)
	-	-

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#### VAT

VAT receivable	10 169 700	8 714 489
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VAT output payables and VAT input receivables are shown in note 8.

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

### 42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Operating expenditures were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Class	2021	2020
Emergency	152 073	63 890
Impractical to follow process	359 972	1 734 177
Sole supplier	213 428	46 565
	<b>725 473</b>	<b>1 844 632</b>

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# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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### 43. Budget differences

#### Material differences between budget and actual amounts

1 - There was a marginal increase in electricity consumption during the year against projected revenue, this might be attributed to stay at home regulations in line with COVID-19 protocols

2 - There was a marginal increase in electricity consumption during the year against projected revenue, this might be attributed to stay at home regulations in line with COVID-19 protocols

3 - Agency fees were slightly above projected revenue, this may be due to road operators having enough time to register and renew their vehicle licences on time.

4 - Other Income of the Municipality is made up of sundry income that include tender fees, sale of goods and services. Due to the Municipality revenue enhancement drive, other income collections surpassed the projected amount.

5 - Interest Received surpassed projected revenue collections because, during National Lockdown, all the Grant funds, and internal generated funds were not being utilised and had been invested in short-term interest-bearing accounts.

6 - Property rates revenue actual amounts increased against projected income, this may be attributed to reduction in the number of consumers receiving rebates and other exemptions during the year.

7 - Transfers and Subsidies exceeds what had been budgeted for due to National Treasury supplementing additional funds specifically directed in the combatting of Global Covid-19 pandemic as disaster relief funding at local government level.

8 - Transfers and Subsidies exceeds what had been budgeted for due to National Treasury supplementing additional funds specifically directed in the combatting of Global Covid-19 pandemic as disaster relief funding at local government level

9 - Employee cost variances are primarily because of lack of anticipated salaries and wages increase, tightened overtime approval process, decreased number of acting personnel and fewer employees cashing in their leave days.

10 - Remuneration of councillors did not surpass projected spending due to no increase directive from SALGA as had been anticipated during budget compilation period.

11 - Due to re-assessment of useful lives of assets, at which some had to be put with R1 value pending investigations and verification, depreciation was subsequently affected.

12 - Due to re-assessment of useful lives of assets, at which some had to be put with R1 value pending investigations and verification, depreciation was subsequently affected.

#### 13 - Impairment

14 - Repairs and Maintenance on budgeting is incorporated in contracted services as well as Inventory consumed hence this variance may be divided into the stated two categories

15 - Contracted services indicated a huge variance, this is due to difference in classification of transaction at budgeting level and at annual financial statements expense type classification.

16 - Contracted services indicated a huge variance, this is due to difference in classification of transaction at budgeting level and at annual financial statements expense type classification.

17 - The of variance R27 762 800 is due to the fact that income statement does not account for capital spending in the form of Asset acquisitions. Capital additions are accounted in the balance sheet hence it seems that capital expenditure for current year was not budgeted for.

18 - Due to Expert Valuation report calculation, there was a huge difference in how they arrive at the current market value of the investment property hence variance on fair value adjustment amounts

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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### 44. Prior period errors

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior-year adjustments:

#### Statement of financial position as at 30 June 2020

	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Inventories	406 265	-	-	-	406 265
Operating lease asset	6 227	(6 227)	-	-	-
Receivables from exchange transactions	7 353 450	-	-	-	7 353 450
Receivables from non-exchange transactions	15 744 456	(268 730)	-	-	15 475 726
VAT receivable	8 714 489	-	-	-	8 714 489
Cash and cash equivalents	53 552 636	(622 627)	-	-	52 930 009
Investment property	21 600 000	-	-	-	21 600 000
Property, plant and equipment	341 661 727	1 011 655	-	-	342 673 382
Intangible assets	453 382	-	-	-	453 382
Payables from exchange transactions	(12 294 328)	(2 420 085)	-	-	(14 714 413)
Consumer deposits	(24 301)	(13 001)	-	-	(37 302)
Employee benefit obligation - NCL	-	-	-	(4 071 725)	(4 071 725)
Unspent conditional grants and receipt	(27 242 427)	-	-	-	(27 242 427)
Employee benefit obligation - CL	-	-	-	(486 251)	(486 251)
Provisions - Current Liabilities	(51 000)	(435 251)	-	486 251	-
Provisions - Non Current Liabilities	(5 195 399)	(176 962)	-	4 071 725	(1 300 636)
Accumulated surplus	(404 685 177)	2 931 228	-	-	(401 753 949)
	-	-	-	-	-

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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### 44. Prior period errors (continued)

#### Statement of financial performance as at 30 June 2020

Statement of financial performance	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Service charges	311 856	-	-	-	311 856
Rental of facilities and equipment	1 199 552	(13 001)	-	-	1 186 551
Interest received (trading)	2 388 820	-	-	-	2 388 820
Agency services	338 629	-	-	-	338 629
Other income	141 719	-	-	-	141 719
Interest received (investment)	2 480 794	(235 003)	-	-	2 245 791
Property rates	28 633 768	-	-	-	28 633 768
Government grants & subsidies	133 923 023	-	-	-	133 923 023
Public contributions and donations	20 141	-	-	-	20 141
Fines, penalties and forfeits	141 500	-	-	-	141 500
Employee related costs	(77 114 136)	(1 892 101)	-	-	(79 006 237)
Remuneration of councillors	(12 645 038)	2 007 869	-	-	(10 637 169)
Depreciation and amortisation	(28 546 252)	1 011 655	-	-	(27 534 597)
Finance costs	(32 725)	-	-	-	(32 725)
Debt impairment	(4 156 836)	(268 730)	-	-	(4 425 566)
Contracted services	(6 412 479)	-	-	-	(6 412 479)
Loss on disposal of assets and liabilities	(254 802)	-	-	-	(254 802)
General expenses	(43 218 119)	-	-	-	(43 218 119)
	<b>(2 800 585)</b>	<b>610 689</b>	-	-	<b>(2 189 896)</b>



# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### Inventories

No adjustments were done to this balance/transaction

### Operating lease asset

This is a legacy balance which has not changed for the past 3 years council item prepared for write-off (R 6 226.94)

### Receivables from exchange transactions

No adjustments were done to this balance/transaction

### Receivables from nonexchange transactions

The decrease of (R 268,730) to receivables is due to the restatement of fines impairment which was restated in the 2019/20 financial year.

### VAT receivable

No adjustments were done to this balance/transaction

### Cash and cash equivalents

Cash & Cash Equivalent - The decrease is due to the following adjustments made, Cash on hand was overstated by R 62,483.91 reason being the uncleared cashier float which was not reconciled, Bank Balances was overstated by R (690,364.28) reason being duplicated transactions & unsupported journals and short term deposits was understated by R 5 100.95

### Investment property

No adjustments were done to this balance/transaction

### Property, plant and equipment

Due to the corrections of the prior year componentising errors, there was a change in the calculations for depreciations for each immovable asset category. The depreciation for 2020 was overstated. A prior year adjustment was recorded and resulted in a net decrease in depreciation for R1,011,655.

### Intangible assets

No adjustments were done to this balance/transaction

### Payables from exchange transactions

### Leave accrual provision

The provision for leave was recalculated based on the leave days as per payday report 30 June 2020 liability increased by (R 2 419 663)

Debtors with credit balances - This is a legacy balance that was written-off R 421

### Consumer deposits

The increase of (R 13,001) was due to transactions incorrectly recorded under rental of facilities instead of consumer deposit

### Unspent conditional grants and receipt

No adjustments were done to this balance/transaction

### Provisions - Current Liabilities

# Ratlou Local Municipality

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Reclassification of long service awards from provision to employee benefit obligation R 486 251

### Long Service Awards

Long service awards was calculated based on the new reports submitted by the actuaries for the following years: 2019/2020 & 2021 short term portion increased by (R 435 251) and long term portion increased by (R 176 962)

### **Provisions - Non Current Liabilities**

Long service awards was calculated based on the new reports submitted by the actuaries for the following years: 2019/2020 & 2021 short term portion increased by (R 435 251) and long term portion increased by (R 176 962)

Reclassification of long service awards from provision to employee benefit obligation R 4 071 725

### **Employee benefit obligation - Non Current Liabilities**

Reclassification of long service awards from provision to employee benefit obligation (R -4 071 725)

### **Employee benefit obligation - Current Liabilities**

Reclassification of long service awards from provision to employee benefit obligation (R-486 251)

### **Accumulated surplus**

All the adjustments that were made above make up the balance of accumulated surplus

### **Service charges**

No adjustments were done to this balance/transaction

### **Rental of facilities and equipment**

The decrease of R 13,001 was due to consumer deposit transactions incorrectly recorded under rental of facilities

### **Interest received (trading)**

No adjustments were done to this balance/transaction

### **Agency services**

No adjustments were done to this balance/transaction

### **Other income**

No adjustments were done to this balance/transaction

### **Interest received (investment)**

Interest Income Investments - The decrease is due to an adjustment made to interest income (Main Bank) which was overstated by R(235 003)

### **Property rates**

No adjustments were done to this balance/transaction

### **Government grants & subsidies**

No adjustments were done to this balance/transaction

# Ratlou Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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(continued)

### Public contributions and donations

No adjustments were done to this balance/transaction

### Fines, penalties and forfeits

No adjustments were done to this balance/transaction

### Employee related costs

Long service awards increased by (R 612,213) this is because of the recalculation that was done based on the new reports from the actuaries for the following years: 2019/2020 & 2021

Leave provision charge increased by (R 2,419,663) This is because of the recalculation of the leave accrual provision as per the payday report 30 June 2020

There was an amount of R 1 139 775 to agree the amount as per the annual financial statements to the payday reports

### Remuneration of councillors

No adjustments were done to this balance/transaction

### Depreciation and amortisation

Correction of depreciation from the new register R1 011 655

### Finance costs

No adjustments were done to this balance/transaction

### Debt impairment

The increase of (R 268,730) is due to the restatement of fines impairment which was restated in the 2019/20 financial year.

### Contracted services

No adjustments were done to this balance/transaction

### Loss on disposal of assets and liabilities

No adjustments were done to this balance/transaction

### General expenses

No adjustments were done to this balance/transaction

### 45. Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated.

The nature and reason of reclassification is disclosed. Where material prior period errors have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.